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Ideas on Liberty

DECEMBER 1974

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LEONARD E. READ *President,* Foundation for Economic Education

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Alexsandr Solzhenitsyn-

Some Lessons for Americans

GEORGE H. DOUGLAS

WITHIN the past few years, Mr. Aleksandr Solzhenitsyn has gained a certain amount of notoriety in the United States, most obviously after his expulsion from the Soviet Union and his well-publicized confrontation with the Russian government. Needless to say, his literary reputation has grown steadily in this country with the publication in English of such major works as *The Cancer Ward, August 1914, One Day in the Life of Ivan Denisovith, The First Circle,* and most recently, *The Gulag Archipelago.* It is generally understood by Americans that Solzhenitsyn has been a great fighter for freedom in our time. But the truth is that his importance in this regard is greatly undervalued in America – taken as a matter of course, we might say. Mr. Solzhenitsyn is in fact one of the great libertarians of our time, and the lessons he has for us are not regional or narrowly historical. They are not intended for Russians alone. They are directed not only at the Soviet government and the Communist system, as it is convenient and pleasurable for Americans to believe, but to all people who value freedom and see it slipping from their grasp.

To a certain extent Mr. Solzhenitsyn has been something of an enigma to Americans. A great many who read of his difficulties with the Communist government in Russia were not able to understand his desire to stay on his native soil when he could easily have accepted a comfortable asylum in any number of countries. A great many could not understand his feeling of tragic loss at having to leave his homeland when it seemed so much simpler to wage his fight from a distant position of safety. (Actually there was nothing at all strange about Sol-

Dr. Douglas is Assistant Professor of English at the University of Illinois, Urbana.

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zhenitsyn's desire to stay in Russia; it was no more strange than George Washington's desire to stay in the United States when he had to face up to the English king's tax collector and garrison troops.) And doubtless many Americans were puzzled, if not injured, by Solzhenitsyn's dark hints to the press that the United States was not his idea of a libertarian's paradise; that in spite of our history we have tended to allow our liberties to erode and decay; that we are a decadent culture.

Solzhenitsyn's latest book to appear in the West, *The Gulag Archipelago*, is the strongest statement thus far of his political beliefs and his most forceful condemnation of Communist totalitarianism. In the Western or non-Communist world we have been offered over the years a number of books exposing the horrors of the Stalinist regime, so it may seem natural for many people to accept the book's conclusions more or less routinely. Among certain intellectuals of the Communist world, on the other hand, it must have come as something of a shock. It is a treatise, not a novel; its truths are explicit not implicit. In recent years Solzhenitsyn has been praised both in Russia and in the Satellite countries as one of the great social/humanitarian novelists who accept the Communist verities in their purity, but inveigh against the excesses of the Stalinist era.

Spokesman for Communism?

Georg Lukas, for example, the well-known Hungarian literary critic and aesthetician wrote a book on Solzhenitsyn several years ago, in which one of his major theses was that Solzhenitsyn is a throwback to the literary tradition of "social realism" of the twenties. He speaks, so it is said, for an untarnished Communism of a kind that was beginning to be established in Russia before the rise of Stalin. To thinkers like Lukas, the Stalin era was a time of distortion and corruption, and what we need is a return to the simon-pure, humanitarian Communism of Lenin and others of his stripe. Solzhenitsyn, according to this kind of thinking, was just the sort of man to effect the return and the purification.

But to defenders of the faith like Lukas, *The Gulag Archipelago* must have hit like a bolt of lightning. For it appears that Solzhenitsyn is not their man at all. The weight of the book does not support the theory that there ever was a pure, humanitarian form of Communism. It suggests instead that from the very beginning Communism was a corrupt political ideology, that it never served

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humanitarian or libertarian ends, but was always autocratic, despotic, and totalitarian in spirit. The lesson of the book seems to be that if you want to find the truth about any given political regime you must pay attention to what it actually does, not what it says. Outward ideology is a cipher, a nothing, a vapor; it is actual political practice, the presence or absence of individual liberty, that counts; this is the all, the everything, the alpha, the omega.

A Myth Dispelled

For many European intellectuals (and many Americans, too, needless to say) it became a convenient myth that Communism just needed to be put back on the track, that the thirties was a decade of excess. What was necessary was a corrective hand, a new Communist regime to correct the abuses and restore the virtues of democratic humanitarianism. The thesis of *The Gulag Archipelago* is that at no time – from the very moment of the 1917 revolution to the present – did the Communist regime in Russia show the slightest concern for freedom and individual liberty, that the political system of the Soviet government was largely an extension, a renewal, even an intensification of the kind of tyranny practiced for centuries by the Tsarist regime.

The Gulag Archipelago is a book about prisons – prisons, interrogations, beatings, the general system whereby human life is ordered and systematically controlled in the Soviet Union. Gulag is an acronym for Russian words meaning Chief Administration of Corrective Labor Camps. The archipelago is not a geographical locale, a string of islands, as one might immediately suspect, but a string of prison camps, scattered, says Solzhenitsyn, "from the Bering Strait almost to the Bosporus" – which is to say, across the whole of Russia. During the Stalin years these prisons, or camps, held between twelve and twenty million prisoners. The point is, however, the prisons were not an outgrowth of Stalin's twisted, paranoic mind, but a long-standing system of control, developed in Russia under the Tsars and welcomed by Lenin when he came to power in 1917.

In a way, the system of prisons, labor camps, night-time arrests – whatever name we may give to it as a whole – became a more essential and central part of the Communist regime than it had been at any other time in Russian history, perhaps the history of the world. Terror became a branch of government, almost as we in America speak of our executive, judicial, legislative "branches"; namely, as

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a functional, essential, necessary way of operating. It was not just a temporary expediency, an historical wrinkle; it was a foundation-stone of the system.

The Evidence is Clear

Very remarkably, and with steady, relentless determination, Solzhenitsyn makes his case that the system of terror was not just a wave in Soviet history, but the whole ocean. The book is documented in great detail, although it is the documentation of the artist, the seer, that we see, not mainly the documentation of the rigorous historian; for Solzhenitsyn had to gather his evidence as best he could, in bits and pieces, from here and there. He was dealing, after all, with a system of government that does not make much information available to critics and historians.

Still, the weight of the historical evidence is clear. Soviet history, of course, is hard to assemble, and the Russian people themselves as Mr. Solzhenitsyn remarks, have a tendency to remember "not what actually happened, not history, but merely that hackneyed dotted line they have chosen to drive into our memories by incessant hammering." Ask a Russian about public political trials. He will remember one or two. "He will remember those of Bukharin and Zinoviev. And, knitting his brow, that of the Promparty too. And that's all. There were no other public trials. Yet in actual fact they began right after the October Revolution. In 1918, quantities of them were taking place in many different tribunals,"[1] and Solzhenitsyn supplies a whole chapter full of them, showing unequivocally that all of the abuses of the judicial system under Stalin were present from the very early days.

The book is full of superb ironies and devastating contrasts – contrasts of the tyrannies of old feudal Russia with those of the twentieth century, and invariably the modern, "humanitarian" Soviet system suffers by the contrast. Prisons were better under Peter the Great we find; torture was used less often; indeed it would seem that all the arts of oppression are more highly refined in the twentieth century than in the sixteenth.

What had been acceptable under Tsar Mikhailovich in the seventeenth century, what had already been regarded as barbarism under Peter the Great, what might have been used against ten or twenty people in all during the time of Biron in the mid-eighteenth century, what had already been totally impossible under Catherine the Great, was all being practiced during the flowering of the glorious twentieth century – in a so-

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ciety based on socialist principles, and at a time when airplanes were flying and the radio and talking films had already appeared — not by one scoundrel alone in one secret place only, but by tens of thousands of specially trained human beasts standing over millions of defenseless victims.[2]

Solzhenitsyn's mood shifts from irony to rage, but his indictment is always the same: conditions of life were actually more humane under the Tsars. Reception at prison camp?

They would assign the newcomers brigade leaders from among the camp veterans, who would quickly *teach them to live*, to make do, to submit to discipline, and to cheat. And from their very first morning, they would march off to work because the chimes of the great Epoch were striking and could not wait. The Soviet Union is not, after all, some Tsarist hard-labor Akatui for you, where prisoners got three days' rest after they arrived.[3]

Treatment of peasants? Consider the crime of six collective farmers who were tried and executed as plotters against the people.

After they had finished mowing the collective farm with their own hands, they had gone back and mowed a second time along the hummocks to get a little hay for their own cows. The All-Russian Central Executive Committee *refused to pardon all six of these peasants, and the sentence of execution was carried out.* . . . What cruel and evil Saltychikha, what utterly repulsive serf-owner would have *killed* six peasants for their miserable little clippings of hay? If one had dared to beat them with birch switches even once, we would know about it and read about it in school and curse that name.[4]

Yes, tyranny never disappeared in Russia, even in the early joyful days of the Revolution. But why, one wonders, would a political movement, conceived in lofty humanitarian and democratic terms choose the path of totalitarianism and almost immediately find itself devoted to practices that were as bad or worse than anything found in the regime it was displacing? One might answer the question in historical terms by pointing out that Russia had no long tradition of liberty behind it, that a new government could not, after all, be expected to differ very much from one which had been entrenched for a thousand years. Or one may answer, in more philosophical terms, that Marxist doctrine itself never really had any libertarian inclinations; that it was from the start dogmatic, doctrinaire, intolerant, despotic, collectivist, totalitarian.

Either of these answers may be true. But they are not of great interest to Mr. Solzhenitsyn who is

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neither an historian nor a philosopher – just a dogged individualist and libertarian who calls things as he sees them. His viewpoint is always nothing but that of a man who knows freedom when he sees it, and refuses to countenance the substitutes that use its name in deceit.

Twisting the Language

This relabeling and obscuring of things, the distorting and twisting of language is, of course, one of the most salient characteristics of modern Communism, as we in the non-Communist world have long been aware. George Orwell, for example, one of the most powerful and incisive critics of totalitarian government in the twentieth century described it to perfection back in the 1930s during the Spanish Civil War in his *Homage to Catalonia,* and later in *Animal Farm* and *1984*. Political language, Orwell perceived, was used to obscure political reality. If you torture somebody or slap somebody in a cell, you find some euphemism or abstract phraseology that somehow hides the fact and convinces others that you are not really doing something bad after all. Needless to say, the Communists are not the only offenders, but they have probably been the most persistent and ingenious. Under this system political language has to consist largely of euphemism, question-begging and sheer cloudy vagueness. Defenceless villages are bombarded from the air, the inhabitants driven out into the countryside, the cattle machine-gunned, the huts set on fire with incendiary bullets; this is called *pacification.* Millions of peasants are robbed of their farms and sent trudging along the roads with no more than they can carry: this is called *transfer of population* or *rectification of frontiers.* People are imprisoned for years without trial, or shot in the back of the neck or sent to die of Scurvy in Arctic labor camps: this is called *elimination of unreliable elements.*[5]

As a literary man, a man of words, Solzhenitsyn takes pains to document this tendency to rename things – to obscure, to befuddle, to confuse. Once again, of course, the practice goes back historically to the very roots of the Communist regime. During and immediately after the 1917 Revolution, for example, there was a tendency to rename everything that had to be held over from the Tsarist regime. "Thus the death penalty was rechristened 'the supreme measure' – no longer a punishment, but a means of *social defense.*" In 1927, the Russian Central Committee abolished capital punishment except for crimes against the state and army. One such crime was "banditry," but in time it was obvious that "every

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armed nationalist who doesn't agree with the central government is a 'bandit,' " and, similarly, "any participant in an urban rebellion is also a 'bandit.' "[6]

Or consider prisons. In February 1917, all the political prisons of the Tsar, both those used for interrogation and for the serving of sentences were emptied. But, by December of that same year, "it had already become clear that it was altogether impossible to do without prisons, that some people simply couldn't be left anywhere else except behind bars, because — well, simply because there was no place for them in the new society." All the same old institutions were needed, nothing was really new; but it had to be made to seem as if everything were new.

> Of course they proclaimed immediately that the horrors of the Tsarist prisons would not be repeated; that *fatiguing correction* would not be permitted; that there would be no compulsory silence in prison, no solitary confinement, no separating the prisoners from one another during outdoor walks, no marching in step or single file, not even any locked cells.... What was really necessary, however, was to repudiate all those old, besmirched words. So now they called them *political isolators* — political detention centers — demonstrating with this phrase their view of the members of once revolutionary parties as political enemies and stressing not the punitive role of the bars but only the necessity of isolating (and only temporarily, it appeared) these old-fashioned revolutionaries from the onward march of the new society.[7]

Solzhenitsyn lays much of the blame for the perversions of language on the great Lenin himself. Stalin and his henchmen were carrying on a tradition that went back to the revolution and this can be seen clearly manifested in Lenin's letters and state papers. Lenin is thus not the simon-pure man of the people that Communist visionaries have assumed him to be; the truth is that he was every bit as inclined to self-deception and verbal trickery as any of the apostles of terror who held sway in the thirties and forties. As early as 1917, Lenin called for the "merciless suppression of attempts at anarchy on the part of drunkards, hooligans, counterrevolutionaries, and other persons."[8] Later on he came to see the enemies of the workers in rather broader terms, and in his essay of 1918, "How to Organize the Competition," he proclaimed the common purpose of "purging the land of all kinds of harmful insects." This classification of "insect" became a remarkably large one:

> Under the term *insects* he included not only all class enemies but also "workers malingering at their work"

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– for example, the typesetters of the Petrograd Party printing shops. (That is what time does. It is difficult for us nowadays to understand how workers who had just become dictators were immediately inclined to malinger at work they were doing for themselves.)

The forms of insect-purging which Lenin conceived of in this essay were most varied: in some places they were placed under arrest, in other places set to cleaning latrines; in some, "after having served their time in punishment cells, they would be handed yellow tickets"; in others parasites *would be shot*. . . .

It is not possible for us at this time to fully investigate exactly who fell within the broad definition of *insects;* the population of Russia was too heterogeneous and encompassed small, special groups, entirely superfluous and, today, forgotten. The people in the local zemstvo self-governing bodies were, of course, *insects*. People in the cooperative movement were also insects, as were all owners of their own homes. There were not a few insects among the teachers in the gymnasiums. The church parish councils were made up almost exclusively of insects, and it was insects of course who sang in church choirs. All priests were insects – and monks and nuns were even more so.[9]

What of Lenin?

What then must we conclude about a man like Lenin and the system of government he spawned? Was Lenin a good man corrupted by power? Was he a man whose humanitarian ideals were lost when faced with political reality and the complexities of governmental administration? Actually the biographical details are not important; nor are the specific historial reasons for the development of Russian Communism into a form of totaliarianism. What is more important is the more general lesson we learn from it all, which is nothing other than the fact that it is a characteristic of political systems that they tend to mask their power and true style under some kind of smoke screen, some kind of symbolic or mythical legerdemain, some kind of verbal deceit. Older forms of absolutism – a monarchy, let us say – might justify themselves by spinning out myths about the relationship between the monarch and some kind of diety; tyranny might be justified by drawing a parallel between royal whim and divine law. Under the Soviet system, where a great pretense is made that the people themselves are the rulers and proprietors, the techniques get a little more sticky and much more ingenuity is called for. Everything must go on behind some kind of doctrinal smoke screen. While there is the assumption that "the people," or "the workers" are sovereign and hold the reins of government, we can see from pas-

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sages like those above, that the doctrine, the professed beliefs, are nothing but elaborate charades.

Is there Liberty?

Ultimately the only kind of concrete reality in the political sphere is individual liberty. It either exists or it doesn't exist, and no reference to abstract vapors like "the people," or "the workers" makes any difference one way or the other. In the case of the Soviet system it is plain from the evidence offered by Mr. Solzhenitsyn that the system never provided anything but a continuation (in fact, an intensification) of the kind of tyranny that it pledged to replace — all else was window dressing, tissue-thin façade meant to distract the attention of the masses as a new set of rulers took the helm.

Again it will be remarked that all this may be obvious to large numbers of Americans who have never been slow to perceive the lessons that can be learned from other people's political systems. But what is the relevance and application to American history of the experiences of this, an altogether different kind of political system? How can we compare, in any way, our experience with that of a regime which makes use of political prisons, of torture, of brutality, of secret police, and all the other tools and techniques of modern dictatorship?

At first blush no comparison seems possible. But remember the main lesson that Russian history has to teach us. It is that no form of political ideology or metaphysics can be entirely trusted; no system of government should catch us asleep. We must always get around behind the outward ideology and seek out the reality. Is there individual liberty or is there not? We Americans are sure that we enjoy it ourselves because we have institutions and traditions guaranteeing it, because it is talked of everywhere, and because our political institutions regularly trumpet the blessings they confer. But remember that the institutions and traditions are abstractions, and when we look at the philosophical abstractions in a mind like Lenin's — with its full complement of "workers," "insects," "hooligans," and so on — we can see that any set of political beliefs must be looked upon critically. Any given political leader is wedded to and inseparable from the set of political shibboleths and platitudes in which his roots are planted. Liberty, on the other hand, is not tied to temporal dogmas; still, it is easy to forget because it is stern, hard and unglamorous; there is nothing soporific about it. How easy it is to forget

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liberty and live instead in a world of diverting and comforting abstractions which enable us to gain power over others or force our will on them.

And of course we Americans are susceptible to our own set of political myths. While we have no torture chambers, no Gulag Archipelago, we, too, are manipulated by candied ideologies, and our freedom of action is far more severely restricted than we care to admit. And it is restricted by means that are not very different from those which are used to justify a police state in the Soviet Union. We, too, tend to live in a world of hazy political abstractions and bromides; we have faith in vague, misty, and poorly defined notions – yes, "the people," for example. It is always urged that this or that political act is "for the good of the people," even though most politicians who abundantly use the term would be hard put to explain what they mean by it. (The fact that two such utterly different political personalities as George McGovern and George Wallace both claim that their own personal appeal is "to the people" shows how nebulous and foolish the idea is.) The concept of "people" is usually used very much like the Communists use the concept of "worker" or "proletarian" – namely as a means of forestalling the necessity to think or actually grapple with reality.

Freedom of Speech?

Freedom of speech? It may seem obvious that in America the newspaperman can write whatever he likes; the citizen can mount a stump with impunity or publish a tract against the government without fear of winding up behind bars. Nevertheless, freedom of speech is not by any means as widespread as one may think. Anyone may speak freely, to be sure, as long as he doesn't challenge the prevailing standardized beliefs, the current mythology of uplift and social reform; the nonconformist always faces the possibility of professional suicide, social ostracism or oblivion. One may speak freely within a certain very carefully circumscribed framework; outside of this framework freedom of speech is very restricted indeed. It will be answered that all kinds of wild men and eccentrics are allowed to speak their minds, but usually this is only after having been safely labeled as wild men or eccentrics. A George Lincoln Rockwell, for example, would have little difficulty speaking on a university campus, even though his neo-Nazism would be repellent to the vast majority of the community. But then it must be remembered

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that his views are so outrageous — expressed almost entirely in bold cartoon form — that he could be admitted under the assumption that he was innocuous and that his views would not sway or mislead his audience. He challenges nothing; he touches no raw nerves. But consider the case of the Nobel-prize winning physicist, William Shockley, who was not permitted to speak at Harvard and present his unconventional and unpopular views on genetics; indeed, he was physically prevented from making himself heard. True, freedom of speech is guaranteed under our constitution, but very often freedom from having to go to jail is of little comfort to a person whose ideas are unpopular and contrary to present superstitutions. It is thus often best to express ideas that are conventional or in some other way certified harmless to the prevailing social stereotypes.

What of restriction by the government of individual freedom of action? Well, to be sure, the government makes no large-scale attempt to control individual behavior, at least in the full Orwellian sense; but we can hardly say that it makes no attempts at all. Needless to say, the existence of any government implies some limitations on individual freedom of action since the state must, at the very least, protect its citizens from injury at the hands of other citizens. But the degree to which our government looks after the "welfare" of its citizens today would certainly be shocking to the writers of our constitution. (Strange it is that so many Americans fail to see that "looking after somebody" is a form of control.) The government is in the "regulation" business in a way that would at one time not have been thought possible. It tells citizens in great and patient detail what kinds of drugs they can buy, what kinds of schools and colleges they can attend and what kinds of things they should expect to learn there, what foreign countries they may visit, who they must rent their houses to, how they must equip their automobiles, and even what time they must wake up on a cold winter morning — all, to be sure, under the guise of protecting the interests of "all the People."

A Bill of Grievances

When he wrote his bill of grievances against the English king in the Declaration of Independence, Thomas Jefferson noted that the king had "erected a multitude of new Offices, and sent hither swarms of Officers to harrass our People, and eat out their Substance." But today we have a multitude of offices and officers that would have staggered the imagi-

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nation of a Jefferson and sent it reeling; the tax collector of the federal government is much more assiduous than anything that could have been dreamed of by the Hanovers, and his methods of spying and snooping are so sophisticated that they would make the methods of the Russian secret police look like amateur triflings.

Remember, though, that this explosion of governmental "aids" and "services" is called for by "the people"; it is meant to answer to perceived social needs. But this brings us back once more to the main point. The government acts to meet the needs which are imagined to arise from some mythical collective. Individual liberty or individual will is not its main concern, or even its secondary concern, or even its tertiary concern. In fact, individual liberty or freedom of expression are hardly its concern at all. The atmosphere in which it moves is not one of concrete, tangible realities, but of steamy vapors and myths, simplistic formulas, bromides and shibboleths. Being closely immersed in this system it is not easy to see how we may be deceived by it (as we can easily see how the language of Marxism and Leninism cozens the Russians), but if we expect our liberties to survive, we must be careful to see that we do.

This, it seems to me, is the universal lesson Mr. Aleksandr Solzhenitsyn has to teach. The twentieth century is the century of massive government control of individual liberty. Liberty is a concrete entity, not very different from a hat, a table, or a snow shovel. One ought to be able to recognize it when one sees it. But it is no longer very much in evidence because we have so consistently been fed and nourished on political myths – to the exclusion of freedom. Most of us living in the twentieth century have not noticed the erosions of freedom since our political leaders have ingeniously directed our minds to myths by which they may most easily control and direct our destinies.

— FOOTNOTES —

1 *The Gulag Archipelago, 1918-1956: An Experiment in Literary Investigation*, tr. by Thomas P. Whitney, New York: Harper & Row, 1974, p. 299.

2 *Ibid.*, pp. 93-94.

3 *Ibid.*, p. 577.

4 *Ibid.*, p. 437.

5 George Orwell, *The Collected Essays, Journalism and Letters of George Orwell*, ed. by Sonia Orwell and Ian Angus, New York: Harcourt, Brace & World, 1968, Vol. IV, p. 136.

6 *Gulag*, p. 436.

7 *Ibid.*, pp. 459-60.

8 V. I. Lenin, *Sobrannye Sochineniya (Collected Works)*, Fifth edition, Vol. 35, p. 68. Quoted in *Gulag*, p. 27.

9 *Gulag*, pp. 27-28.

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Capitalism and the Wages of Virtue

ROGER DONWAY

AMONG DEFENDERS of capitalism, there is virtually no dispute about the proper justification of that system. There is no dispute because there is too much disagreement. What we hear is largely the silence of antagonists who refuse to speak to one another, reminding us again that civil wars are the most ferocious, and the least civil.

One of the more prominent standoffs, at the moment, involves those who would use some form of natural rights defense for capitalism, and those who would prefer to point out its social consequences: the moralists and the pragmatists, as they are sometimes styled. On this split, I would myself join with those who see free enterprise as a necessary part of freedom, and freedom as appropriate to man. I would even maintain that those who defend liberty in terms of its social consequences are not so much taking freedom's side as taking its side-effects.

But I would point out, too, that this standoff has had an unfortunate aspect. The problem is not that there is something to be said on both sides; it is that there is everything to be said on one side. Yet, such are the traumas of hostility that it is generally not being said.

Because the moralists see a fatal giveaway in defending capitalism by its social effects, they sometimes sound as though the social effects were of no concern to them. In the attempt to be essential, they have often pruned their theory to a nubbin; they have even cut off the branches, lest anyone should mistake them for roots. The consequences of capitalism, which

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Mr. Donway deals as a free lance student and writer with the social implications of certain philosophical issues.

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should be the boast of its defenders, are denied and spurned. Surely, this is wrong-headed.

Competition's Effects on Innovation, Quality, and Price

To see why, the example of competition is helpful. It might be held, and it would be true, that economic competition is a rightful use of man's freedom, and that for political purposes nothing more needs to be said in its behalf. But that does not mean that there is nothing more to be said about competition. It hardly follows that capitalists must so fear falling into collectivist presuppositions that they cannot point with pride to competition's effects on innovation, quality, and price.

In the matter of competition, this is generally recognized. Less well recognized is the wider application of the principle. I particularly have in mind a debate, which Irving Kristol sponsored in *Public Interest* a few years ago, on the relation between "merit" and material acquisition in a free society. This is perhaps the prime example of a question to which capitalists respond by affirming utter indifference, on the grounds that any concern could only be based on collectivist assumptions. I do not want to enter the debate directly or thoroughly, but I do think it would be helpful to point out how such an issue might be legitimately approached.

Three principal barriers are usually alleged by capitalists for the avoidance of such a question: (1) the collectivist terms of the argument; (2) the alleged amorality of profit-seeking; and (3) the impediment to prediction created by free will. I think that each of these can be dispelled, however, if one recurs to the truth that in discussing economics we are discussing human action.

Wrong Assumptions

The first and foremost problem, then, concerns the terms of the argument. They are quite unacceptable. These money/merit questions generally assume, in one form or another, that capitalist society is a kind of feudalistic hierarchy, or social great chain of being, in which position is signaled by wealth. Apparently it is further supposed that within this hierarchy God makes men high and low, and audits their estates. For it is asked whether relative rankings of wealth under capitalism are adjusted in proportion to the net virtue possessed by the individuals — and in proportion, it should be noted, to whatever the author cares to call virtue. No such challenge can be of any concern.

So put, the question ultimately rests on what has been called "the

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puppy-bowl theory of values." This is the idea that all wealth belongs, at basis, to society as a whole, and is disbursed by that whole to the various members of the society. Under such an outlook, all gain is deprivation; what one person gets is at the expense of others, and the distribution must therefore be justified by some merit in the gainers. But the scheme is simply false. We are not dealing with scores and prizes, or with points and rewards. We are dealing with individual acting men who are trying to accomplish something.

There is no need to justify social disbursements and deprivations in a free society, because there are none. Distribution is precluded by attribution, sometimes called ownership. Where wealth is created and freely conveyed, what one person possesses as a result of this process can be of no moral concern to others. To try to make it of concern is simply to pander to envy.

Unfortunately, some have attempted to defend capitalism by accepting the puppy-bowl theory of values. They have asserted that, under capitalism, if all are given an equal opportunity, (equal puppies beginning an equal distance from the bowl), the resulting distribution will be roughly proportional to striving. This gives rise to the image of a society-wide competition, a metaphor that can be utterly discredited, as Garry Wills proved in *Nixon Agonistes*.

The problem at issue, though, is really with other defenders of capitalism, with those who have taken the position that once capitalism is properly defended as an adjunct of freedom, no more ought to be said about the relation between merit and acquisition. This stance, I think, *is* susceptible to Irving Kristol's charge of retreat. It is giving up on one of the earlier boasts of capitalism.

Can Virtue Succeed?

Though comparative wealth is of no legitimate concern in a free society, it surely is proper for a person to wonder whether the means of economic success in that world are virtuous, or whether he must sin for his dinner. This does not mean he can expect all virtues to find a correlate in financial reward. Nor does it mean that none but good men will gain in income. It does mean that actions which tend toward success can be found among the virtues; and one might even argue that *only* among the virtues are to be found means that one can count on to bring success. Conversely, one might argue that corresponding vices tend toward economic failure, and even that no vice can be counted on for economic gain.

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That, I take it, is the moral of those inspirational novels in which virtuous young men rise and dissolute heirs fail. (I mention them since both Wills and Kristol use success stories as a focus of argument.) The point is not that merit must always end up wealthier than evil, nor that there is any injustice if it does not. The point, rather, is that certain virtues give one the facility for achieving and maintaining success; and certain vices deprive one of those facilities. In this view, the existence of unworthy rich is more democratizing than otherwise. It reminds us that there is a deeper awkwardness than lack of breeding, and that the parvenu who drops his silverware is still more fittingly accomplished than the heir who lets money slip through his fingers.

When the problem is cast in such terms, I do not see why those who defend freedom as befitting to man need shrink from making some such answer. On the contrary, precisely those who hold free-enterprise to be appropriate to human nature should be anxious to show that virtues appropriate to human nature have a special rapport with that economic system.

Is Business Amoral?

That is the first, and main, barrier to connecting merit and money. The second concerns the alleged amorality of enterprise. It is widely held that business operates according to a morally neutral process called "meeting demand." By this image, a businessman looks up demand in his field, much as he might look up a telephone number, and finds that the maximum profit can be made from producing so much of a certain good or service. As a businessman, so the story goes, he must produce that good whether he considers it valuable or worthless; he must provide the service whether he thinks it virtuous or vicious.

But this is a mechanical parody. It is, again, a failure to see economics as human action. The entrepreneur, like all men, is acting into an incompletely known future. Not for him, nor for anyone else, is there an automatic guide to appropriate economic activity.

One of the entrepreneur's basic unknowns, as it happens, is how people's wishes will change from what they are. Moreover, he must know better than his fellows how those wishes will change, for the entrepreneur makes a profit only from future and widely unexpected demand. He must guess the likely future desires of his customers, and he must guess them more accurately than others who are trying to guess them.

And what means does he have

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to do this? I suggest he has no better means than to bring his own values to bear.

A businessman does not, of course, consider himself the sole and single mold of all his customers. But he does use his idea of what is helpful, attractive, exciting, and so on, to predict what others, in their context, will find so. The alternative is absurd: an entrepreneur has quite enough unknowns without wondering of what possible value his product could be. Since he cannot base his actions on what people do want, and cannot act on what it is generally thought they will want, why would he take a risk on what he believed they could have no good reason for wanting?

Capitalists have too long accepted, and indeed insisted upon, the image of amoralists, and it is just not accurate. A businessman makes offerings to his customers that are generally compatible with his own values. The notion of his placidly pandering to what he knows is vice is largely a myth, and for the simple reason that he could not expect to succeed if he did pander to it.

A Presumption of Reasonableness

Thirdly and finally, then, we turn to the block raised by free will. It is said that one cannot predict the results of political-economic freedom — whether virtue or vice will prove economically gainful — because one cannot know for certain what people are going to do. And that is correct.

What needs to be mentioned, obviously, is that though free will is a barrier to strict prediction, we can often cite strong and worthy motives for a certain kind of behavior. Then, to the extent that reasonableness prevails, we can expect such behavior to occur. This is the moral of the better mousetrap. In the case at hand, we can cite overwhelming motives for people in a free society to prefer the work of diligence to that of idleness, the products of inventiveness to those of imitation, the style of independence to that of sycophancy. To the extent that reasonableness prevails, we can thus expect those virtues to be a means of gain in a free society.

This is clearly not an answer to the question of how capitalism comports with virtue. But I have not been attempting an answer. I have only tried to remove three hindrances frequently thought to preclude any reply at all.

For a reply there should be: not because the case for freedom requires more testimony, but because freedom should have more testimonials. Capitalism is not under a cloud, but it is all too often under a bushel.

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THE UGLY MARKET:

Why Capitalism Is Hated, Feared and Despised

ISRAEL M. KIRZNER

ONE of the most intriguing paradoxes surrounding modern capitalism is the hate, the fear, and the contempt with which it is commonly regarded. Every ill in contemporary society is invariably blamed on business, on the pursuit of private profit, on the institution of private ownership. Those who have pierced the shrouds of hate and ignorance with which the critics of the market have enveloped it, inevitably come to ask themselves why so valuable a social institution is held in such universal contempt and dislike. The question is one which has a scientific fascination of its own. But the question has significance extending far beyond mere scientific curiosity. As Mises pointed out, "A social system, however beneficial, cannot work if it is not supported by public opinion."[1]

Those who are convinced that the market system is uniquely capable of mobilizing and developing the resources available to a society in a manner able most faithfully to reflect the wishes of its members, while it protects and nourishes their political and economic liberties, have for a long time been aware of the unfortunate validity of this statement. The ability of the market to serve society has been and is continually being undermined by the attacks levelled by its ideological opponents and by the powerlessness of the public to withstand these attacks. Public opinion has come to be moulded in a direction overwhelmingly antithetical to a market orientation. The "anti-capitalist mentality" has come to pervade the thinking of the masses who are the market's chief beneficiaries, of the intellectuals and social scientists who might have been expected to be its principal

Dr. Kirzner is professor of economics at New York University. He is the author of numerous articles and books, the latter including *The Economic Point of View*, *Market Theory and the Price System*, and, most recently, *Competition and Entrepreneurship*.

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interpreters and exponents, as well as of the entrepreneurs and business leaders who constitute its pivotal instruments. It is surely a tribute to the extraordinary vitality and power of the market system that in the face of such deep mistrust, and in the teeth of massive and well-nigh crippling state interventions (deriving largely from this anti-capitalist mentality), the system still continues to support an enormously complex division of labor and to generate an unprecedentedly high flow of goods and services. How long this can be continued in the face of widespread lack of confidence in the efficiency and morality of the system, must seriously trouble those concerned for the very survival of the system.

An understanding of the nature and sources of this anti-capitalist mentality is, therefore, crucially important. If this mentality is to be dispelled, its principal features must be clearly pointed out, and its sources identified. A number of scholars have addressed themselves to this task. A series of papers by various writers was published under the editorship of Hayek two decades ago,[2] drawing attention to the anti-capitalist bias of historians, and relating this to the hostility towards the early emergence of capitalism in the eighteenth and nineteenth centuries evinced at the time by the aristocracy and the intellectuals. Almost four decades ago Hutt[3] brilliantly analyzed the causes, not so much of the existence of the anti-capitalist mentality itself, as of the surprising inability of the economists to influence public opinion towards an appreciation of the beneficent operation of the competitive market process. More recently both Mises[4] and Stigler[5] have sought to explain the emergence of the strong antipathies shown towards the market system by so many, including the intellectuals who might have been expected to be its most enthusiastic supporters. Historians of economic thought have, and no doubt will, chart the vagaries in the attitudes of economists themselves towards the social usefulness of a decentralized system of decision-making based on private property.

The following discussion of the anti-capitalist mentality will attempt to identify three distinct levels at which this mentality demands analysis: *First,* we will notice the objections explicitly raised by the critics of capitalism. It is through these charges, criticisms and denunciations that the anti-capitalist mentality finds overt expression. *Second,* we will identify the analytical premises which inform (or misinform) the stated criticisms expressive of the

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anti-capitalist mentality. Any attempt to respond to the criticism raised at the first level must sooner or later search out the weaknesses of the analytical bases – at the second level – for these criticisms. *Third,* we will take note of the deeper attitudes which have inspired the various forms of anti-capitalist mentality. Whatever the stated, specific denunciations of capitalism, whatever the errors in economic analysis which are implicit in these denunciations, a thorough understandng of the anti-capitalist mentality cannot avoid ultimately coming to grips with the deep-seated prejudices and engrained habits of thought which are, both consciously and unconsciously, responsible for the antipathy shown to the market system. We will now take up in turn the three levels which we have identified.

The Stated Criticisms

The list of denunciations of the market system is both well-known and long. They range from those which condemn the system on moral grounds to those which attack it on more narrowly economic grounds. We will make no attempt to do more than merely recite this list. It is not our main purpose here to grapple with these criticisms. Rather we list them to indicate the range of expression of the anti-capitalist mentality, and more importantly, to distinguish these stated criticisms sharply from their theoretical underpinnings, and from the unstated attitudes to which they are, in large measure, to be ascribed.

The market system is indicted as feeding and responsible for the *materialistic aspects* of modern society. It is blamed as promoting and permitting the expression of *selfishness* and *greed.* It is charged with *encouraging fraudulent behavior.* It is denounced as *debasing the tastes of the public* through advertising, fraudulent or otherwise, leading them to demand products and services which are in fact *harmful and degenerating.* The system is held accountable for the *destruction of the environment.* It is denounced for *destroying the self-esteem* of its workers, for generating profound *alienation, despondency and despair* within society, as well as for widespread *insecurity and anxieties.* The *inequality in incomes* which characterizes capitalist countries is denounced as evil in itself and socially deleterious in its consequences. This inequality is condemned as exemplifying the fundamental *injustice* of the market system; it is perceived as expressive of economic *oppression* and *exploitation.* The market system is made to shoulder responsi-

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bility for *racism*, for *sexism*, for *imperialism*. The market is given failing grades in its strictly economic functions. It is seen as producing shoddy, dangerous products, for the *profit of the businessman rather than for the use of the consumer*. It is seen as generating cataclysmic spasms of *overproduction, unemployment and monetary crisis*. It is seen as *subverting the operation of political democracy*. It is blamed for the corruption of government and for the *concentrations of dangerous centers of economic power in big business*.

No doubt this list is an incomplete one. But it does present the range of anti-capitalist cliches with which we are all familiar. Sooner or later the anti-capitalist mentality expresses itself in one or several of these charges, denunciations and criticisms.

Before reviewing the *theoretical bases* for these criticisms, it is important that one observation be made. This is that while in most cases these denunciations can be sustained only in the context of particular theoretical views (so that the revelation of fallacies in these views renders these objections harmless) the objections themselves are usually raised without benefit of *any explicit* theoretical framework. An undesirable aspect of capitalist reality is observed, whether it is the prevalence of fraud or unemployment, or racism, or greed. This aspect is then uncritically attributed to capitalism itself. The circumstance that, in the nature of things, undesirable features of capitalist reality – or, for that matter of any reality – abound, must in some measure account for the continual reappearance of old denunciations of capitalism in new guises despite their earlier refutations.

Anti-Capitalist Theory — The Stigler-Zweig Thesis

We now turn then, to examine the theoretical bases which nourish the overt denunciations of the market system listed in the preceding section. In this we confine ourselves to those (often merely implicit) views of anti-capitalists which seem most clearly vulnerable to critical scrutiny. It is not, to repeat, our purpose here substantively to deal with the objections listed in the preceding section. Nor, in fact, do we necessarily maintain that each and every one of these objections is entirely without force. But in examining the analytical "vision" expressed by the anti-capitalist mentality, we find it expedient to draw attention only to those aspects of it which, we believe, dispassionate consideration reveals to

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be flawed. In fact our purpose in setting forth the theoretical underpinnings of anti-capitalism is to illustrate what may be termed the Stigler-Zweig thesis.

This thesis is that the traditional training of the professional economist predisposes him towards a free enterprise view on economic affairs. This thesis has support from more than one quarter within the ideological spectrum. In a well-known paper a dozen years ago, Stigler advanced this thesis: "the professional study of economics makes one politically conservative," (with a "conservative" defined as one "who wishes most economic activity to be conducted by private enterprise, and who believes that abuses of private power will usually be checked, and incitements to efficiency and progress usually provided, by the forces of competition.")[6] More recently Michael Zweig has expressed, on behalf of the New Left, the similar view long held by socialist critics of orthodox economics: that marginalist analysis (with which orthodox economics is held to be completely identified) is not only "irrelevant," but that it can be "pernicious," so that "marginalism is fundamentally counter-revolutionary."[7] In an essay introducing a volume of readings which includes many contributions from both the New and Old Left, Lekachman, too, has registered his opinion that marginalism is "a highly conservative notion."[8]

Our survey of the theoretical groundwork of the anti-capitalist mentality will confirm this thesis. We will discover, that is, that this theoretical vision is inconsistent (to say the least) with that which underlies economic analysis. So that *this* level of discussion of the anti-capitalist mentality must perceive it, as Mises has insisted again and again, as the *denial of economic science.*

It is to be observed that the Stigler-Zweig thesis, or a variant of it, is relevant not only to the theoretical bases for these anti-capitalist objections which are strictly economic in character, but also to those which underlie the denunciations concerned with the morality of the market system. The habits of thought engendered by economic analysis enable one to avoid ethical judgments which are mutually inconsistent or which otherwise rest on logically invalid foundations.

If the preceding section consisted of a list of well-worn denunciations of capitalism, the following pages will turn out to offer a catalogue of those fallacies which teachers of introductory economic theory find themselves again and again forced to unmask.

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(a) *One man's gain must be another's loss:* Innocence of economics is often most clearly manifested by the refusal to recognize that free exchange must have been viewed as (at least prospectively) beneficial by both sides to the deal. The error of insisting that gain in the market must be at someone else's expense is responsible for a wide range of denunciations of the market. These include charges of exploitation of sellers by buyers (as in the case of labor), and of exploitation of buyers by sellers (as in the case of landlord relations). This error is responsible for the perennial willingness of critics of capitalism to prohibit exchanges in which they perceive one of the parties to be receiving inordinate benefit. The error is, further, one of the foundations for the condemnation of profits in general, and thus of the entire market system insofar as it is the social manifestation of the profit motive.

(b) *Blaming the waiter for obesity:* Failure to perceive the degree to which the notion of consumer sovereignty manifests itself in the market is responsible for what Stigler has called blaming the waiter for obesity. In the most naive forms of this fallacy, the market system is condemned for the efficiency and abundance with which it ministers to consumer tastes which the critic does not share. To a large degree the condemnation of capitalism for "materialism" reflects this aberration. (One recalls that not only the market has been condemned for its materialism, but economists have been denounced for their interest in such a debased topic as the material side of human existence.) To some degree the condemnation of business for producing shoddy or dangerous products reflects a failure to understand that consumers are simply unwilling to sacrifice as much as would be necessary to enjoy a higher level of quality and safety. There can be no doubt that current denunciations of capitalism for its effect upon the environment must, to some extent, be seen as reflecting a value placed upon the quality of the environment which is higher than that placed by consumers in general.

To a certain extent, the charges of racism and sexism levelled against capitalism are expressive of the same blindness towards the direction in which causes and effects are related in the market process. At somewhat less naive levels of discussion, the "blaming the waiter for obesity" fallacy resurfaces as an attack on advertising and selling effort in general. If it is not the waiter himself

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who is to be the culprit, it is the neon sign outside the restaurant, or the tempting aroma of good food escaping therefrom, which are perceived as the villains. It is perhaps because elementary economics in fact generally fails to make clear the role of selling effort in the entrepreneurial process of seeking to serve the market, that this particular form of the obesity fallacy is advanced so triumphantly by economists who ought to know better.

(c) *Petulance at Costs (or the denial of scarcity):* To a surprising extent the criticisms of anti-capitalists turn out to reflect merely an impatience at the costs inevitably associated with the achievement of desired goals. Again and again undesirable features of the economic landscape are cited as evidence of the failure of the market. (Incidentally, the same fallacy is, to be sure, often committed in the course of pro-capitalist criticisms of socialist economies.) Here it is not so much that the critic ignores or disagrees with the values of consumers, as that he simply refuses to recognize that efficiency in achieving more highly valued goals may necessitate the deliberate renunciation of otherwise important goals which happen to be less urgently valued. Long working hours, poor working conditions, loss of pristine environmental beauty may, elementary economics teaches us, be evidence not of the failure of the economic system (whether capitalist or socialist) to achieve its goals, but of the very efficiency with which it channels resources away from less crucial goals towards those more highly valued. Some aspects of what the critics deplore as worker alienation, or of the anxiety and insecurity felt by market participants, would surely be appraised rather differently were they recognized as the inevitable costs of division of labor or of a social system in which freedom of entry for competitors is the prime motive force. At a somewhat more subtle level, the often deplored garishness and pervasiveness of modern advertising take on a different aspect when perceived as a social cost made necessary by the sheer multitude of products from which the consumer in successful capitalism must choose. The very affluence of capitalism, it turns out, reveals a new guise in which scarcity manifests itself – the scarcity of information on what to consume out of the available riches. Anti-capitalist critics – it turns out – are ill-equipped to perceive these insights of elementary economics.

(d) *The fear of anarchy*: As

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Hayek has repeatedly pointed out, one of the cliches of our age sees a blemish in anything that "is not consciously directed as a whole," that this is a "proof of its irrationality and of the need completely to replace it by a deliberately designed mechanism."[9] In particular, this fallacy is related to "the inability, caused by the lack of a compositive theory of social phenomena, to grasp how the independent action of many men can produce coherent wholes, persistent structures of relationships which serve important human purposes without having been designed for that end."[10]

There can be no doubt that this "lack of compositive theory of social phenomena" is the view underlying an enormous volume of anti-capitalist criticism. The anti-capitalist mentality, it is clear, is to a great extent, coextensive with ignorance of, or a refusal to acknowledge, the insights into the market *system* which economics theory reveals. Once it is taken for granted that a society unplanned from the top must generate incessant chaos, it becomes easy enough to seize on targets that may be held to exemplify that chaos. Even where critics of capitalism recognize the determinateness of market forces, they see them as nonetheless chaotic in the sense that these forces are believed to lead in socially undesirable directions.

(e) *Fear of the consequences of greed:* Closely related to the preceding analytical prejudice is that which tends to attribute undesirable consequences to the market simply because the market permits greedy or selfish individuals to act out their impulses. Because freedom to trade means freedom to act greedily or selfishly, it is believed the consequences of laissez-faire must inevitably tend to be nasty, brutish and jungle-like. What is being implicitly denied in this respect is the ability of the market process to harness the greed of its participants so as to serve the wishes of the other participants. Refusal to perceive the constraints upon individual actions imposed by the market permits anti-capitalists to interpret those aspects of the economics landscape which they deplore as the only-to-be-expected, sinister consequences of a social system based on selfishness and greed.

(f) *Blaming the market for the results of intervention:* As is well known, the market system is frequently criticized for features of contemporary economic society which are, in fact, to be attributed to state *interference* with the market. Of course, to the extent

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that it is *contemporary* capitalism which is being attacked, there can be no objection to this. However, such criticisms of capitalism, it all too frequently turns out, are in fact deployed to attack not the statist interference with the market process, but the market system itself. We have here a simple analytical failure to recognize, within the complex tangle of modern capitalism, the consequences of its market elements, from those of non-market admixtures. This analytical failure manifests itself in many of those objections to capitalism which relate to absence of competition generated by government-imposed barriers to entry (or from limitations on international trade), or to maladjustments arising from government price controls of various kinds or to cyclical maladjustments (including large-scale unemployment) generated by massive government monetary expansion. In all such criticisms, what is at issue is the theory maintained (perhaps implicitly) by the critics that the undesirable features being exposed are to be attributed, not to departures from the market, but to the untrammeled workings of the market process itself.

(g) *The "Nirvana Fallacy":* As the final entry in our (doubtless incomplete) list of analytical fallacies, we present what Professor Demsetz has labeled the "Nirvana Approach."[11] (In fact we will present it in a somewhat broader context than that identified by Demsetz). Demsetz explains that "those who adopt the Nirvana viewpoint seek to discover discrepancies between the ideal and the real and if discrepancies are found, they deduce that the real is inefficient."[12] There can be no doubt that many critics of capitalism are judging its efficiency and/or morality by comparison with some ideal norm that can have little relevance for real problems. In so doing they overlook the fact that improving an imperfect world must take place against the background of that imperfect world; that it is usually simply impossible to remake whole systems in their entirety; that even where this is possible, the costs of doing so may make imperfection relatively attractive and efficient.

The nirvana attitude of many anti-capitalists manifests itself in various ways. Thus the market is frequently blamed for the distribution of incomes to which it gives rise without regard to the circumstance that the market presupposes some initial distribution of resource ownership (especially in regard to the resources embodied in human beings themselves). Or, where marginal analysis is indict-

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ed for accepting without challenge the institutional structure (including the existing property rights system) within which marginal adjustments are contemplated to be made, there is no awareness on the part of the critics, of the *costs* (transaction and policing) of remaking the social system from the very foundations. Or, again, as Demsetz has shown, critics who have pointed to externalities or other circumstances spelling inefficiency, have frequently ignored, in their calculations, the cost of resources that would be required to correct these inefficiencies.

The Sources of the Anti-Capitalist Mentality

Our survey of anti-capitalist criticisms of the market, and our identification of the analytical confusions which have frequently supported these criticisms make it of special interest to review now the underlying psychological attitudes and prejudices which might fuel this mentality. The very recognition of the confusions which abound in the theoretical underpinnings for so much anti-capitalist criticism, make it clear that such criticism must be nourished by deeply held values and prejudices. The literature cited earlier in this paper, together with several additional sources, yield the following inventory of attitudes from which anti-capitalism might easily be expected to spring.

(a) Mises has dwelt at length on the *resentments* which can arise from *frustrated ambitions*, of the *envy* on the part of the intellectuals and the white collar workers of the good fortunes enjoyed by successful entrepreneurs.

(b) Similar in important respects must be judged the widespread views that economic inequalities are somehow immoral and seriously undesirable per se. Here the often vicarious envy of the wealthy and sympathy for the poor must be judged as predisposing observers of capitalist inequalities towards "sinister" interpretations of the sources of these inequalities.

(c) Deep-seated contempt for greed and for self-centered activities is clearly responsible for a readiness to believe the worst about capitalism.[13]

(d) An almost similarly deep-seated contempt for the low tastes of the masses and thus for the businessmen who cater to these low tastes is responsible for treating the *market* as vulgar and crass. It becomes, in fact, all the easier to blame the vulgarity of mass tastes upon the businessmen who minister to them.

(e) Closely related to high-brow

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disdain of mass tastes, must be listed man's love for the natural over the artificial, his preference for more spaciousness and simplicity over urban congestion and complexity. Since the spectacular success of industrial capitalism was accompanied by the loss of the simple, natural life for which so many of us yearn, capitalism itself has come to be the villain.[14]

(f) And again, the yearning for simplicity abuts on the deep-rooted unwillingness of men to be forced to be efficient. Modern capitalism is despised and feared because it successfully mobilizes available resources to serve socially needed purposes.

(g) Widespread *fear of economic power* must be considered one of the attitudes responsible for anti-capitalism. While what Professor Petro has recently called the "economic power syndrome"[15] is often accompanied by an explicit theoretical position which denies the role of consumer sovereignty, it seems clear that in many instances the syndrome in fact *precedes* the theoretical position needed to support it. Thus the very success of capitalism in organizing production in efficient, large scale productive units is responsible in fact for the suspicions which have led to its being so bitterly attacked.

(h) Professor Hutt has pointed out that opponents of economics are often the victims of what he calls "custom-thought"[16] – intellectual inertness. To be sure custom-thought may work in more than one direction. But the long list in the preceding section of this paper of economic fallacies subscribed to by anti-capitalists suggests that intellectual inertness might indeed play a not insignificant role in the anti-capitalist mentality.

(i) Finally we notice, as an explanation for the persistence of so many elementary fallacies, the role of the "corruption of opinion by interest." Professor Hutt[17] has provided a full review of the role of "power thought" in this regard. Here again, of course, opinion can be corrupted by interest in more than one direction. But when one thinks of the businessmen who stand to gain from governmental protection against domestic or foreign competition and of the many who, rightly or wrongly, believe that a different order of things would redound to their benefit, it cannot be denied that this must be counted an important source of anti-capitalism.

Wrestling with the Anti-Capitalist Mentality

Traditionally apologists for capitalism have addressed themselves to the specific stated objections

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and accusations advanced by the detractors of the market. In attempting to do this they have, of course, found it necessary to search out the logical fallacies which support these objections. At the same time awareness of the more deeply rooted prejudices which seem to be responsible for the continued vitality of the anti-capitalist mentality, raise doubts as to the efficacy of this strategy for the ideological defense of the market. Recognition of the three-level character of the anti-capitalist mentality emphasized in this paper can be of help in identifying what must be faced. At the level of stated objections, there is an enormous variety of possible manifestations of the mentality. Refutation of one particular objection in one form does not prevent its reappearance in some other form. Clearly, for this reason, theory has a crucial role to play in refuting the analytical fallacies responsible for entire groups of possible objections and denunciations of the market. On the other hand, the very generality of theoretical discussion makes it possible for critics of capitalism to fail to see how the theories relate to *particular* features of the market which seem to invite criticism. The proper *application* of theory is, of course, in many ways more difficult than theorizing itself.

Moreover, economic theory is for various reasons not well-adapted for the task of combating anti-capitalism. Theorists are scientists whose attempts at maintaining *value-freedom* in their work seem to render them unprepared to serve as apologists for a particular system of social organization. Again, the *sophistication* of modern theory is hardly conducive to the correction of popular misconceptions. (We recall that Edwin Cannan, for this reason, appealed for *simple* economics). There are grounds for believing that the character of much contemporary theory, especially in its emphasis on equilibrium conditions, is not well suited for the explication of the social function of the market.[18] At the ideological level defense against the anti-capitalist mentality seems to require continual new applications of fundamental theory to new situations.

But on the other hand, our awareness of the role of theoretical fallacy and of the impact of the multitude of specific denunciations of the market, must make us cautious in imagining that the anti-capitalist mentality can be dispelled by any device that fails to come to grips with each of these levels of its manifestation. No matter how successfully one or more of the underlying anti-capi-

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talist prejudices may be neutralized, the possibility of logical error yet remains and the availability of apparently undesirable features of capitalism ready to be used in its denunciation has not yet been eliminated. Moreover, the formidable list of anti-capitalist prejudices must raise doubts concerning the likelihood that they can be successfully neutralized by any simple means. To be sure, any advance is desirable if its costs are acceptable. But the degree of advance needed to make a visible dent in the anti-capitalist mentality must require the most careful examination of the costs involved in any proposal.

Many students of capitalism have pointed out that, despite its advantages, there may well be grounds for predicting its replacement by other systems. One thinks of Schumpeter's thesis in this regard. One possible reason for arguing that capitalism is unstable, is that it is a social system which generates a negative public opinion so powerful as to spell its ultimate death. This paper has attempted to identify the sources of this tendency. Only by recognizing the nature and the power of these forces can we hope, through patient teaching and discussion, to dispel the hate and the ignorance which surround the free market.

– *FOOTNOTES* –

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2 F. A. Hayek (Ed.), *Capitalism and the Historians* (Chicago, 1954).

3 W. H. Hutt, *Economists and the Public, A Study of Competition and Opinion* (London, 1936).

4 L. Mises, *The Anti-Capitalistic Mentality* (Van Nostrand, 1965).

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6 G. J. Stigler, "The Politics of Political Economists", *Quarterly Journal of Economics* (November 1959); reprinted in *Essays in the History of Economics* (Chicago, 1965), pp. 52-53.

7 M. Zweig, "A New Left Critique of Economics", in D. Mermelstein, (Ed.) *Economics: Mainstream Readings and Radical Critiques* (New York, 1970), p. 25.

8 R. Lekachman, "Special Introduction" in Mermelstein, *op. cit.* p. xi.

9 F. A. Hayek, *The Counter-Revolution of Science* (Free Press, 1955), p. 87.

10 *Op. cit.*, p. 80 (italics supplied). See also F. A. Hayek, *Individualism and Economic Order* (London, 1949), pp. 7 ff.

11 H. Demsetz, "Information and Efficiency: Another Viewpoint", *Journal of Law and Economics* (April 1969).

12 *Op. cit.* p. 1.

13 One thinks here in particular of Ruskin.

14 See the above cited *Capitalism and the Historians.*

15 See S. Petro, "The Economic-Power Syndrome", in *Toward Liberty* (Mises Festschrift) Vol. II, p. 274.

16 *Economists and the Public,* p. 50.

17 *Op. cit.*, Chapters III and IV.

18 One thinks here in particular of Professor Buchanan's plea that economics be understood as a sophisticated catallactics, the theory of exchanges and of markets, see his "What Should Economists Do?", *Southern Economic Journal* (January, 1964).

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MUD PIES FOR SALE

PAUL L. POIROT

THE AMERICAN PEOPLE finally know the truth about Watergate: it didn't stop inflation. But there persists some honest confusion in Washington, if not elsewhere, as to the cause of high prices and how to combat them.

It seemed for a time that the culprit might be General Motors, the rumor being that prices of new models would rise by as much as $500. A bit later, New York subway fares were said to be the key: any increase over the prevailing 35 cents would be inflationary. Meanwhile, others allege that higher wages demanded by labor unions have been chiefly responsible for rising prices. And the Office of Communication of the U. S. Department of Agriculture explains that food prices really haven't gone up, comparatively speaking. But if it seems that they have, it could be attributed to the fact that 1973 wasn't a normal beef year, that hog and poultry producers lowered their production plans when costs rose; that worldwide drought and affluence drained American stocks of wheat, corn, soybeans and the like; and that more Americans are dining out instead of home cooking.

Ask any youngster at his lemonade stand why he doesn't diversify, and he'll promptly give you economics in one lesson: "Well, mister, it's a lot more fun to make mud pies, but there's just no market for them."

How come we grow up forgetting what every youngster knows instinctively? Would you believe that some two-fifths of the time and effort and scarce resources of we the adults of America are going into mud pies! Roughly 40 per cent of our factors of production

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are being diverted to purposes for which "there's just no market."

So what have mud pies to do with inflation? The answer is: "Almost everything." But let's take it step by step.

And our first step is to get off the back of General Motors, or at least off the very silly idea that the most efficient producers of the goods and services we want to buy are the ones who are causing high prices. It ought to be clear that the people who are *not* producing and selling cars are more likely the cause of high priced cars than are the largest and most efficient producers. By and large, most of the customers for cars are persons who at least think their time and property is better invested at something other than auto production. Are the customers then to be blamed for high priced cars?

Are Customers at Fault?

Well, don't let the customers off scot-free. No one would be mad at a little old mud pie maker if he doubled his price. But if some customer willingly paid that price, who should be held responsible? If General Motors hikes its price $500 and finds no customers, does General Motors cause inflation?

There may be chapters in the history and performance of General Motors worthy of criticism. If so, let the critic document his case. But let us not believe that browbeating producers of the goods and services customers want is a reasonable way to combat inflation.

General Motors is not the culprit. And for the same reason, neither do the unionized laborers of America possess direct powers of inflation or deflation. The person who demands a wage higher than anyone is willing to pay may find himself unemployed, which is indeed depressing. But if there's no market for his kind of mud pie, how can the result be inflationary?

Well, there is a way. If organized labor can marshall votes enough to badger Congress to appropriate the funds and create the new money needed to pay for another batch of mud pies (in this case, pay men who are out on strike) that, in effect, makes a market for an otherwise unwanted item; American citizens lose their right of refusal to buy mud pies. This governmental action withdraws scarce resources from the market place, just as if customers had willingly paid men to produce mud pies or to idle themselves on strike. So, to the extent that unions or any other political pressure groups are permitted to exercise the governmental power to force customers to buy unwanted mud pies (the process is to print

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new money to cover the subsidy), that is inflation.

Subsidies Upset the Market

As for subway fares, it is not the 35 cents paid by riders that is inflationary; it is the balance of the cost which is covered by subsidy, which is in turn translated through a Federal deficit into additional fiat money. It's the added supply of fiat money that spells inflation, and the money is printed in order to withdraw from the market place goods or services customers demand if "someone else" pays for them.

The high prices housewives are willing to pay for beef, sugar, and other foods are not inflationary, nor is drought or blight in the corn belt inflationary. These things, of themselves, do not add to the supply of fiat money. But if the Federal government lends (gives) Russia dollars with which to draw foodstuffs from the market, the great likelihood is that those will be extra dollars printed; and that is inflationary. So are the new dollars printed to cover farm subsidy and school lunch and food stamp and other welfare programs.

If taxpayers were happy and willing to pay for mud pies, and if Congress resolutely abstained from all deficit spending and refused to authorize the printing of fiat money, the problem of inflation would be ended.

Ah, yes, but what would the poor people then do for money? Ask the young fellow at the lemonade stand, and he'll tell you: all you have to do is earn it; offer a service or supply a good that customers want to buy. And what precisely would all these traders use for money? Why, anything they please. Whatever they think might best serve as a medium of exchange. Perhaps they'd choose gold, as free men customarily have chosen down through the ages whenever the choice was theirs.

To be sure, other commodities have also been used as money — cattle, wampum, cigarettes, gourds — some things that seem very strange to us. But the nearest thing to mud pies that men ever have tried as money are the little green scraps of paper redeemable in nothing.

If our lemonade salesman could get Congress to declare that mud pies are legal tender, he could do a land-office business. In addition to commandeering 40 per cent of the time and effort of adults, he could have all the youngsters "making money" too!

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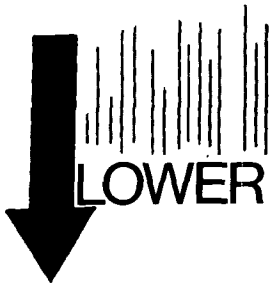
PERCY L. GREAVES, JR.



Interest Rates By Law

WHY would it be a mistake for Federal Reserve officials to lower interest rates?

Wouldn't it help the building industry? It would seem that a reduction in interest rates would lead to a renewal of building activity. This would put a lot of people to work and provide a lot more homes for those who want them. In fact, wouldn't lower interest rates be a spur to other industries and be good for the country as a whole?

The answer is easy. If lower interest rates were *free market* interest rates, business would boom and bid up wage rates. However, if lower interest rates were the result of a government fiat, the effects would be disastrous. As the late Professor Ludwig von Mises frequently stated, every political interference with free market processes makes matters worse, not better, even from the viewpoint of those who propose such political interferences.

The reason for this is often difficult to understand. Unfortunately, those who attempt to push down interest rates by legal edict do not foresee the inevitable undesirable consequences. In recent years many people have learned the hard way about the consequences of political price and wage controls. Learning from experience the consequences of political interest rate controls could be even more painful.

When the government attempts to maintain prices *above* those of the free and unhampered market,

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Professor Greaves is a free lance economist and lecturer. His recent books include *Understanding the Dollar Crisis* and *Mises Made Easier* (Glossary for *Human Action*).

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as it has with some farm products, this inevitably leads to surpluses. Too much land, labor and scarce materials are devoted to producing such subsidized goods. This has two results. First, there are surpluses which must be stored, destroyed or given away. Second, the land, labor and scarce materials are not available to produce those goods and services which consumers desire in larger quantities. We know this because there are people willing to pay more than the free market production costs of such goods and yet cannot find them on the market.

When the government attempts to maintain prices *below* those that would prevail in a free and unhampered market, as it recently did with price controls, this inevitably leads to shortages such as we experienced in a matter of months. In addition to the shortages, we soon had more unemployed workers, factories and transportation facilities, not to mention the increased welfare expenses this made necessary.[1] Businessmen, being human, will not continue to produce what they cannot sell at prices that cover their costs. Their available capital will not long permit it.

[1] People who sanction laws which deprive some workers from earning a living for themselves and their families are honor bound to provide the necessities of life for such second class citizens.

When the government attempts to raise wage rates above those that would prevail in a free and unhampered market, as it has for some forty years, it inevitably produces unemployment or *under*employment with an accompanying demand for welfare payments. Such welfare payments are a burden on all who buy goods and services in the market place. The unemployment and *under*employment mean higher prices because fewer goods and services are produced to compete for the consumers' limited number of dollars.

When the government grants privileges to labor unions to raise wage rates above those of a free and competitive market, it raises the costs of producing union-made goods and services. The resulting higher prices inevitably reduce sales. This in turn reduces employment in such industries, or in other industries whose sales fall off because consumers, paying higher prices for union-made goods and services, have less for other things. This means that those who could have worked in the curtailed industries must look elsewhere for jobs and accept lower wages or remain unemployed and eventually increase the need for welfare payments. Those who take jobs at lower wage rates than they could have had in a free market will be *un-*

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*der*employed. That is, they will be producing goods or services less desired by consumers than those that have been priced out of the market by the legal privileges which permit labor unions to extort higher than free market wages from society.

Such ill-fated attempts to raise wage rates above those earned in a free market inevitably force more and more unfortunate workers to take lower-paying jobs. Eventually, with the growth of labor union power, the competition for such lower-paying jobs drives some wages so low that many workers find it difficult to maintain their previous standard of living. Those who believe that political power can raise *all* wage rates then advocate minimum wage laws. Such laws compel employers to pay all their employees at least the minimum wage. Employers, being human and having limited resources, soon refuse to employ those for whom the minimum wage rate raises production costs above what customers will pay. Such unfortunate persons, including many youngsters, members of minority races and others with limited skills, then become legally unemployable. Their bleak choice is between a life of crime or subsistence on welfare payments until the value of the dollar is reduced by inflation to the point where they become employable at the legal minimum wage rate.

There was no long term mass unemployment in this country when everyone was free to take the highest wage rate that any employer could and would offer for his or her services. Market competition forced employers to pay their workers the full market value of their contribution. If they failed to do so, other employers would bid away such underpaid workers. Political interferences in the labor market, with the intentions of raising *all* wage rates, have created our present mass unemployment, *under*employment and the growing need for welfare payments. Only a return to a free and unhampered labor market will bring to an end such unemployment and *under*employment. In a free market there are jobs for all[2] and no need to subsidize in idleness those who are able to work.

The Market Produces Interest Rates

Interest rates, like prices and wage rates, are market phenomena. Political interferences with interest rates, like price and wage controls, create economic chaos. Such chaos leads to a general loss of freedom and inevitably reduces the living standards of every mem-

[2] See author's "Jobs for All," *The Freeman*, February 1959. Copy on request.

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ber of society. It is thus vital that we all understand why the government should not interfere with free market interest rates.

Market interest rates are a sum of three contributing market factors.

(1) The first is true or pure interest; what Mises called "originary interest." This is payment for time preference. A person currently short of cash may wish to spend $1,000 for something now, and pay for it later when he expects to have more cash. If he wants that object so badly *now* that he is willing to promise to pay $1,100 a year from now, he may be able to obtain an immediate loan of $1,000. That would mean he values spending the $1,000 now so much more than waiting a year to do so that he is willing to pay 10 per cent, or $100, more to have the object now.

In order to borrow this $1,000, the borrower must find someone who has saved $1,000 and is willing to lend it to him for one year for an interest rate of 10 per cent or less. Few people will lend their savings, except for charitable purposes, without receiving some benefit in return. The prospective lender may want to buy a car or take a trip at the end of a year. He will make the loan only on condition that he be repaid an extra sum for making the sacrifice of not spending his money now. That extra payment, called interest, must be high enough for the prospective lender to value the future repayment, with interest, higher than he values spending the $1,000 now. So the loan depends on each party's placing a higher value on what he receives than on what he furnishes the other party. The difference between the sum loaned and the sum to be repaid is true or pure interest – a payment that will compensate a saver for postponing his own spending for the time of the loan.

(2) The second factor in market interest rates is the certainty or uncertainty that the loan will be repaid as specified. If there is valuable collateral or if the lender thinks the chances of repayment are good, this factor will be minimal. However, if the borrower has few resources and there is reason to believe that the loan might not be repaid if he died or lost his job, this would be a factor the lender would consider in arriving at the total interest rate he would request before making a loan to that specific person. This factor would differ from person to person and from loan to loan, but it is present to some extent in the interest rate on every loan.

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(3) The third and currently most important factor in market interest rates is what is expected to happen to the purchasing power of the dollar during the term of the loan. If the lender expects prices to rise 10 per cent in the next year and he only gets 10 per cent more dollars back from the borrower at the end of the year, he does not receive one cent of *pure* interest. Pure interest is only the amount the lender gets back over and above the purchasing power he has lent. So in times of inflation, when the value of the dollar is going down, this third factor must rise. As it rises, so does the market interest rate, which is the total of the three factors just discussed – (1) pure interest based on time preference, (2) uncertainty of repayment and (3) change in the dollar's purchasing power.

Current market interest rates are considered high because this third factor, reflecting an anticipated drop in the dollar's purchasing power, is high. The way to reduce this factor is to reduce the expectation that the purchasing power of the dollar will *drop* in the next year. So the only satisfactory way to reduce current high interest rates is to eliminate the expectation that future prices will be ever higher. This means we must stop the inflation.

More Savings are Needed

Lower interest rates that represent free market interest rates are always helpful to society in general. Lower interest rates in a free market society mean there are comparatively more savers with funds they want to lend than there are borrowers who will pay high interest rates. These savers seek to lend their funds so as to earn as much money as possible. Rather than spend their savings now, they seek more funds at a later date when their current income may be lower, as when they retire, or when their expenses may be higher, as when they may want to buy a car or a house or send a child to college. It is the higher amounts of such savings, bidding in the market place for borrowers, that produce lower interest rates in a free society. To bring about such lower interest rates, government should protect and encourage voluntary loans made with the expectation they will be repaid in dollars with the same or an increasing purchasing power.

But the question in many minds today is, why not have the Federal Reserve System lower market interest rates by fiat? The answer is simply this: If the Federal Reserve lowers interest rates when there are no increased savings available for lending, there will

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be a bigger demand for loans at the lower interest rate than can be made with available savings. Under present laws and conditions, the banks meet this increased demand for loans at the lower interest rates by creating more loan money out of thin air (or should we say paper?). The borrowers get their loans in the form of an addition to their bank accounts on which they can draw checks. No one else has chosen to reduce his spending so as to make his savings available to the borrower, as is always the case with free market credit transactions.

Why Interest Rate Controls Hurt

When the Federal Reserve System reduces interest rates by fiat, it must create more spendable money than was previously earned or saved. It puts into the market dollars which do not represent any contribution to society. You have more dollars in the hands of borrowers and no reduction in the numbers of dollars which savers may spend currently. This has several undesirable effects, some obvious and others largely unseen.

The most obvious effect is that with more money bidding for the same quantity of goods and services in the market place, prices must be higher than they would otherwise be. Largely unseen are the ways in which this increased quantity of money enters the market place and how it affects the structure of production and the welfare of different individuals.

Those who borrow the savings of people who must reduce their current expenditures and those who borrow artificially created bank money cannot be distinguished in the market place. In fact, most borrowers from banks do not know whether they are borrowing the funds of the bank's stockholders and depositors or newly created funds. The borrowers of the newly created funds are in a position to bid away available goods from the earners and savers who would have bought them if the quantity of dollars had not been increased. What such borrowers buy drives prices up and leaves less for all who earned or saved the money they take to market. In the short run, these artificially lower interest rates help borrowers and those who sell to them – the construction industry if the borrowers buy houses – at the expense of all workers, savers and those who would have profited from supplying what the workers and savers can no longer buy.

Outstanding Contracts Affected

Although some may be helped by such artificial lowering of interest rates, all who have earned

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or saved money are hurt. Such creation of more dollars not only hurts all workers and savers, by reducing the value of their dollars, but it also affects the value of every outstanding contract. It means every pre-existing dollar is worth less and every contract promising to pay dollars in the future has been altered in favor of the payer and to the disadvantage of the recipient. This means a reduction in the real value of all bank accounts, insurance policies, wage rates, salaries and pensions as well as all rental contracts, time payments and other purchase agreements. When savers foresee such effects, they refuse to make any more loans unless the interest rates will more than compensate them for the expected drop in the value of the dollars they lend.

The most important, generally unrealized, effect of such artificial increases in the quantity of spendable dollars is that they redirect the whole economy. They do so in a manner that cannot be continued without an ever increasing quantity of newly created dollars to compensate for the resulting higher prices. As the political increase in the quantity of dollars accelerates, more and more of the nation's production facilities are devoted to supplying the spenders of the newly created dollars. This means a smaller and smaller part of the production facilities are devoted to supplying the nation's workers and savers. Eventually, if the process is not stopped in time, the system breaks down and the dollars become worthless.

Stopping Inflation Has a Price

Of course, the process can be stopped at any time, but not without consequences. Once the government stops increasing the quantity of dollars artificially or even slows down the rate of artificial increase in the quantity of dollars, producers supplying goods and services to the spenders of newly created unearned dollars lose a large number of their customers. They must then lay off men and there is a recession or depression — until production is adjusted to supplying only those with earned or saved dollars to spend.

Under present policies the government is continually faced with deciding whether to inflate artificially the quantity of spendable dollars or permit market forces to readjust the economy. If free and unhampered market forces are permitted to emerge, free market prices, wage rates and interest rates will quickly redirect the economy toward a more efficient satisfaction of all those who contribute toward production. Those

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who had spent newly created dollars will have to curb their spending or earn the dollars they spend. The available supplies of workers and capital goods will be quickly redirected toward producing solely for those spending dollars they have earned or saved in the service of their fellowmen.

In short, when Federal Reserve officials lower interest rates artificially, they send a part of the economy off on a spree at the expense of the nation's workers and savers. The spree can only be continued by an ever increasing inflation of the quantity of spendable dollars. If we want to end that inflation and all its undesirable consequences, we must permit the free market to determine interest rates as borrowers compete for the real savings made available by those willing to reduce their potential spending temporarily for a price, commonly called interest. Only freely determined interest rates, without any artificial manipulation or control of the quantity of dollars, will eliminate the inflation problem from our economy.

The best way to reduce market interest rates is to remove the expectancy of further inflation. Once this is done, more people will be encouraged to save more dollars and their competition for borrowers will bring lower market interest rates. Then there can be a profitable expansion of those industries that will direct available supplies of labor and capital into producing more of the things that workers and savers want most.

The only way Federal Reserve officials can help workers, investors and consumers is to stop increasing the quantity of dollars – stop inflating – and permit free market forces to set interest rates that reflect the actual supply of, and demand for, such savings as are available for lending. Any interference with free market interest rates must upset the economy and produce results that all honest and intelligent people consider undesirable.

IDEAS ON LIBERTY

Monetary Madness

AS MONEY is the sinews of every business, the introducing of a doubtful medium – and forcing it into currency by penal laws – must weaken and lessen every branch of business in proportion to the diminution of inducement found in the money.

PELATIAH WEBSTER, *Strictures on Tender Acts*, 1780

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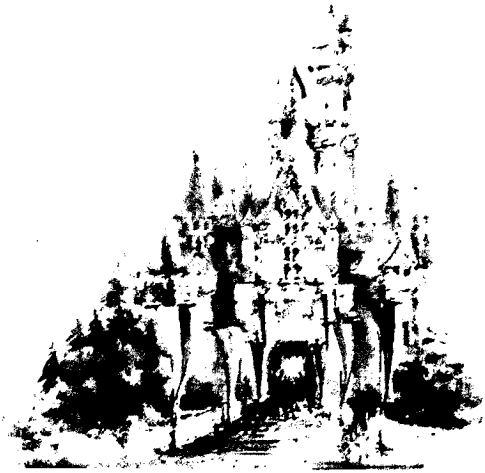
Tales of Three Cities

JOAN WILKE



A RECENT ENVIRONMENTALIST LAW in Montana prohibits changes and developments that have an adverse social impact on a community.

The law is being invoked by some to prevent expansion of Montana Power Company's generating facility at Colstrip.

It is argued that the school facilities would be overburdened by new residents.

Actually, the company is providing temporary classrooms until new school facilities can be built. And that's not all. Having had the community master-planned, the company is also building houses, apartments, motels, mobile home facilities and a commercial complex with air-conditioned mall, shops, stores, professional offices, medical facilities . . . even a post office.

In addition, it is providing a community center with bowling alleys, tennis courts, park and picnic areas and other recreation, as well as providing fire protection and putting in sidewalks, sewers, water lines and other street improvements.

Of course, the company isn't doing this out of the goodness of its corporate heart. It simply must provide housing and facilities in order to attract the hundreds of additional people it will be employing in this previously semi-abandoned town.

Strangely, these things are rarely mentioned even by company officials when under attack. So, the best kept secret in the world continues to be the fact that private interests are in the public interest.

Since Montanans are being de-

Miss Wilke is an advertising writer.

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prived of the opportunity to pay taxes for all those services, it's a wonder the community hasn't been called unconstitutional.

That's precisely the word heard lately to describe another city.

This city, too, was built with private capital and the profit motive. That's how it was possible for it to be so well-planned and to serve such a great need.

The streets are wide and winding and always clean. Shopping and commercial centers are well located for convenience and traffic ease. Green belts are beautifully landscaped with a variety of trees from the community's own nursery.

This city isn't on the most beautiful land in the state. The government owns most of that. But the developers took an available piece of desert waste near feedlots and a railroad and made it green and beautiful with lakes, streams, waterfalls, flowers, golf courses, country clubs and numerous recreation centers with all kinds of sports, entertainment, educational activities, hobbies and crafts. There's even a bandshell bowl and baseball parks.

Sun City is a beautiful answer to a million prayers. It fills a need that should never have existed, but it was a needed response to a society that has sought to force inactivity on some of its most vital, creative, active and fun people.

Sun City is now being called unconstitutional by some because houses are not sold to people with children under 18. Such critics argue that there should not be a community without children – especially since communities without children don't seem to want to pay for new schools in the next town. They do *not* say that it is unconstitutional to force some people to educate several generations of other people's children.

Aside from the absurdities Sun City is occasionally subjected to, it seems to be one of the happiest communities in the United States and has been the model for many other fine recreational and adult communities. And it clearly demstrates that when a community is privately planned, controlled and marketed, the results far exceed ordinary municipal standards.

Advantages of Private Development Including Schools

In a privately developed community, you *know* what you're getting. Streets, commercial areas, church locations – everything is planned on the drawing board. You know the restrictions when you buy the property. No hamburger stand can pop up unexpectedly next door. No billboards. No trashy empty lots.

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Everything bad destroys value. Everything good increases it. Developers like increased values. The community grows progressively better.

It was after the success of Sun City's phase I that Del Webb was able to add lakes, country clubs, bowling alleys, minature golf, tennis courts – and a mammoth indoor swimming pool, artificially landscaped with giant palms, rock gardens and grass.

The purchasers at Sun City continue to enjoy an outstanding appreciation on their investment along with the progression of profitability that has made it all possible.

Compared to the certainties of private control, purchasing a politically manipulated lot under any municipal jurisdiction is just a grab-bag proposition.

One of the most rapidly developed states in recent years, Arizona has seen the construction of many new subdivisions, and its most successful developers are well aware of the profitability of community services.

These new communities usually include streets, street lighting, sidewalks, water, sewer systems, underground utilities, clubhouses, swimming pools and all kinds of recreation.

And since there's no use trying to sell a house to families with children if there are no schools around, schools, too, are often built with private funds, not taxes.

It would be interesting to see what the developers would do if we didn't have a politicalized education system. Imagine the benefits that could result if they tried to outdo each other in providing educational services as they do in providing recreation.

And it would be interesting to see what sales packages of improved materials and methods educators could come up with in their competitive efforts to convince developers of the superiority, and therefore salability, of their services over another *company* of educators.

A City of the Future

But let's leave Arizona and look at another city in the United States built with private funds.

This is a city where the sidewalks are resilient so you won't get tired from walking. A city where the streets are never torn up. A city with a "basement" – an underground infrastructure of tunnels, walkways, wires, ducts, cables, water lines and sewage systems that are easily accessible and readily repaired.

All city operations are monitored by computers and closed circuit TV – methods that sug-

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gest the possibility of developing crime-proof communities.

There's a hotel in this city with a pollution-free monorail running through its ten-story lobby.

The rooms for the hotel were completely prefabricated units – wired, partly furnished, and hoisted into place by cranes. The modules are complete with artificial moonlight.

This city had a mass transit system from its inception. People are also transported by non-polluting aerial tramways and "people movers" that run on the most basic of all principles – friction. And it's the only city in the United States with a STOL (short take-off and landing) airport.

The community is served by over 200 watercraft and has the 5th biggest navy in tonnage in the world – a navy that exists only for purposes of entertainment.

This city has houses that are experimentally powered by fuel cells, a hospital that utilizes closed circuit TV to diagnose cases by remote control.

Half the power for this community is generated by gas turbines whose waste heat is turned into chilled water for air conditioning.

The city extends over 37,443 acres with 7500 acres set aside as a well-protected wildlife preserve. It also includes a $7 million water reclamation project with 40 miles of canals that look like natural rivers.

Garbage disappears from the streets of this city at a velocity of 60 miles an hour through vacuum tubes. It's sucked into a compacting plant equipped with an incinerator that purifies its own emissions with filters and scrubbers so that nothing comes out of the stack but clean steam.

Waste water is recycled to a "Living Farm" of trees and plants.

This city, built on a swampy wasteland, owes its existence to the genius and energy of one man – Walt Disney.

It exists in a country of cities that never trusted their street maintenance, sewage responsibilities, power generation, parks, conservation and recreation to private enterprise. Cities where trucks still haul refuse and streets are torn up regularly in order to repair pipes. Cities where recreation is always swings, sandboxes and monkey bars – certainly not African safaris and Snow White's castle. Cities that have polluted rivers and streams with the waste from their treatment plants and, as public bodies, are never answerable for their actions. Their answer to a messy environment is never action but always exhortation to "keep the city clean."

Part of Disney's success was in

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expecting people to be as they are.

The Disney communities are meticulously clean – and under cotton candy circumstances. He expected sticky little fingers and spilled popcorn. He planned for it – and his plans led to undoubtedly the most efficient waste disposal methods in use in the country today.

Can Dreams Come True?

There are more new cities too. Cities of dreams. Cities we'll never see – not as long as we consider communities to be political entities instead of private properties. Not as long as we trust politicians and distrust private enterprise and corporate bigness.

If a city is a political entity, property rights don't exist. There's eminent domain to prove it. And building codes. And zoning. And re-zoning. And permits. And fees. And taxes. And graft. And favors.

One reason for the startling innovations at Disney World is that it was constructed with its own building codes. This allowed the use of new materials and techniques and specifications.

Modules could be made wider, for example, because they weren't transported over state roads.

Disney's independent code also resulted in much stricter safety and fire protection than the law allows under municipal mandate.

Building codes, in fact, establish minimum requirements that usually become standard. Their effect is simply to stifle progress and substitute repetition and monotony for innovation and improvement in building.

Largely because of these codes, we build and rebuild the same houses over and over. And mostly because of zoning regulations, we build the same cities again and again and then complain about them, calling for more of the city planning that has already contributed so largely to their deficiencies.

Our best hope for better cities is private development and profitability – corporate prosperity. Although "big business" is popularly deplored, it is the big corporation that is capable of the biggest accomplishments.

And fundamentally, we need new respect for private property and enterprise with the long overdue recognition that the public welfare inheres in private interests – and *only* in private interests.

We won't have really new cities until we first enjoy the depoliticalization of human relationships.

That would not only give us new cities. It would give us a new world.

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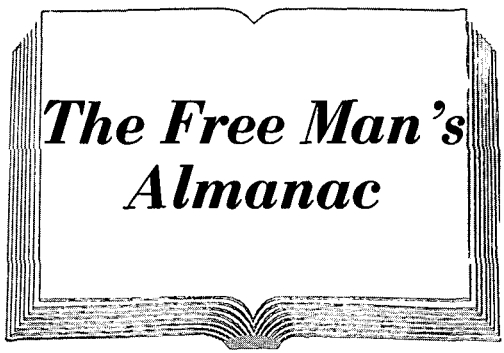

The Free Man's Almanac

IF THIS COUNTRY is to be saved, it will be saved outside of Washington, D.C., by people who have absorbed the sort of wisdom provided by Leonard Read in his beautifully bound *The Free Man's Almanac* (Foundation for Economic Education, $5).

This book, which provides a more or less epigrammatic quotation for each day of the year without reference to the zodiac (Mr. Read is concerned not with the stars, but with ourselves), is far less heterogeneous in its substance than it is in its styles. The variation in styles gives a pleasing modulation; the concentration in basic content, on the other hand, provides a formidable educational wallop.

To begin with the negative – the inability of the political arm to solve our problems – the theme is sounded by a couple of political theorists who had plenty of practical grounding in public affairs (Thomas Jefferson, Woodrow Wilson), by historians (Clarence Carson is an example), and by economists (Murray Rothbard and others).

Jefferson and Wilson did not always practice what they preached, but what they preached was good. So ignore the fact that Wilson, as a wartime President, once spoke about "force, force to the utter-

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most, force without stint or limit" (My quotation is from memory), and concentrate on Leonard Read's exact quotation from Wilson as a political theorist: "The history of liberty is a history of the limitation of governmental power, not the increase of it. When we resist, therefore, the concentration of power, we are resisting the processes of death, because concentration of power is what always precedes the destruction of human liberties . . . Government, in its last analysis, is organized force."

Why does the "organized force" of government lead to the stagnation that is the forerunner of death? Clarence Carson says it forthrightly: "Government is not capable, by nature, of being productive or constructive . . . it acts to restrain and restrict . . ." Murray Rothbard and David A. Stignani put it more whimsically. Rothbard notes that no private firm would dream of trying to solve a "shortage" by telling people to buy less. It is "only government that 'solves' its traffic problems . . . by forcing trucks . . . off the road . . . the 'ideal' solution to traffic congestion is to outlaw all vehicles!" Stignani, leaving a department store just before Christmas, noted the salesgirl's reaction to the crowd ("Our best day yet," she said). But the postman, depositing a heavy mail at Stignani's home, remarked that it was "the worst day we've ever had!"

The Self-Starting Individual

Turning to positive entries, and beginning with the self-starting individual, Mr. Read prints Alexis de Tocqueville on the "greatness and genius of America." The genius was not, in Tocqueville's day, to be found in fertile fields and boundless forests, nor even in schools or the "matchless Constitution." Not until he had gone to the churches of America did Tocqueville understand that "America is great because America is good." (Query: what would he find in the churches today, where the preoccupation of many a pastor is with the "social," not the personal gospel?)

Mr. Read finds plenty of modern Tocquevilles around. Says Frank Chodorov: "There cannot be a 'good' society until there are 'good' men." Says Cardinal Gibbons: "Reform must come from within, not from without. You cannot legislate virtue."

The morality on which Tocqueville, Chodorov and Cardinal Gibbons have been all agreed is grounded in the grain of the universe as it applies to human society. William Graham Sumner sometimes talked against "natural rights," but, fundamentally, he believed in natural law, from which

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natural rights must be deduced. Said Sumner, about the accumulation of property: ". . . the development of character, or of any other good whatever, is impossible without property. The invectives against capital in the hands of those who have it, are doublefaced, and when turned about are nothing but demands for capital in the hands of those who have it not, in order that they may do with it what those who have it are now doing with it." (Doesn't this amount to a recognition of the "natural right" to capital?)

The Origin of Rights

Clarence Carson is clearer than Sumner on the origin of "rights." "If government can create rights," he says, "it can withhold and destroy rights." Shortsighted or stupid people can, of course, give up their rights to organized force. Edmund Burke, quoted by Leonard Read, tells us how this happens. "Men," wrote Burke, "are qualified for civil liberty in exact proportion to their disposition to put moral chains upon their own appetites . . . it is ordained in the eternal constitution of things, that men of intemperate minds cannot be free. Their passions forge their fetters."

The government that is "organized force" takes over by insensible degrees as men let their greed master their better impulses. John Adams, a greatly neglected source of political wisdom, said that "to expect self-denial from men, when they have a majority in their favor and consequently power to gratify themselves, is to disbelieve all history and universal experience."

Once a majority has turned to government to satisfy its desires, we are on our way to the condition noted by Herbert Spencer: "The more numerous public instrumentalities become, the more is there generated in citizens the notion that everything is to be done for them, and nothing by them. Every generation is made less familiar with the attainment of desired ends by individual actions or private agencies; until, eventually, governmental agencies come to be thought of as the only available agencies."

So, if you want to strike a blow for freedom, stop asking Washington for protection of all sorts. The protection may help you for the moment – but, multiplied over thousands of individuals, it will most assuredly "forge your fetters."

Trust Freedom

Freedom alone is to be trusted to serve the individual. Montesquieu said it long ago: "Countries are well cultivated, not as they are

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fertile, but as they are free." Ludwig von Mises, speaking for free production, wrote that "the very principle of capitalist entrepreneurship is to provide for the common man. In his capacity as consumer the common man is the sovereign whose buying or abstention from buying decides the fate of entrepreneurial activities. There is in the market economy no other means of acquiring and preserving wealth than by supplying the masses in the best and cheapest way with all the goods they ask for."

Paul Poirot, expanding on Mises, remarks on the extra-market value of a market place kept free from compulsion. "The free market," he says, "and not its displacement by governmental controls, is the only route to the kind of personal security which makes for harmonious social relationships."

President Ford believes in WIN buttons. But it is Leonard Read who knows that you don't "win" by sloganeering; you need the sort of wisdom that he has assembled for all the days of the year in *The Free Man's Almanac.*

▸ COMPETITION AND ENTREPRENEURSHIP by Israel M. Kirzner (Chicago: University of Chicago Press, 1973) 246 pages, $7.95

Reviewed by Henry Hazlitt

THIS IS A FIRST-RATE contribution to the theory of competition and entrepreneurship.

Professor Kirzner is a former student of the late Ludwig von Mises. He tells us in his Preface that his book can be viewed as a critique of contemporary price theory from an "Austrian" perspective, and he modestly declares: "Above all I owe whatever understanding I have of the market process to almost two decades of study under L. Mises, whose ideas as expounded in a lifetime's work are only beginning to be properly appreciated."

This does not mean that Kirzner's own work lacks originality. On the contrary, by applying his "Austrian" concepts and analysis very thoroughly and patiently to the immense body of literature on price theory that has appeared in England and America over the last generation, he has not only succeeded in exposing its central fallacies but has arrived at penetrating insights and advances in market theory.

His first attack is on the "orthodox" theory of market equilibrium. (By "orthodox" he means the

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bulk of the technical economic literature of the last few decades. This may be confusing to older readers brought up to regard classical or neo-classical economics as orthodox. But he is right in his implication that this recent price theory, which began as heterodoxy, has itself become a new orthodoxy.)

The central error of this new orthodoxy is that it regards market "equilibrium" as a situation that tends to be arrived at automatically, because every person in the market must recognize and do what is to his own advantage. Kirzner points out that this "mechanical" theory of decision-making unconsciously assumes a world of perfect knowledge and prediction. In such a world there would be no need or scope for the entrepreneur.

As defined by Kirzner, the entrepreneur is the decision-maker who is *alert* to hitherto unnoticed opportunities. His function is to increase productivity by providing consumers with types of goods with which they have not previously been provided, or goods of a better quality or at a cheaper cost. Contrary to the theory of Joseph Schumpeter, the entrepreneur's actions move the economy closer toward equilibrium rather than away from it. The reward for his alertness is profits.

The Market Process

The error of the current "market equilibrium" doctrine, Kirzner emphasizes again and again, is that it overlooks or takes for granted the *process* that moves the market toward equilibrium.

Kirzner goes on to analyze current theories of competition and monopoly. He politely points out the fallacies both in the conceptions of "perfect competition" and of "monopolistic competition." Both arise from regarding competition as a "situation" rather than as a *process*. Both are equilibrium theories. "The theory of monopolistic competition was on balance a decidedly unfortunate episode in the history of modern thought."

One insight of Kirzner's helps beget others. In a chapter on Selling Costs, Quality and Competition he points out that so-called "selling costs" are an essential part of production costs, and cannot be legitimately separated from them in economic theory. In the final analysis, all costs are "selling costs."

Pushing this still further, he shows that advertising is not only an inseparable part of selling costs, but on net balance a service to the consumer. It makes him aware of a buying opportunity, at the same time as it is an essential part of the process which spurs the indi-

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vidual producer to try to turn out a better product than his competitors.

A chief function of competition and entrepreneurship, as Kirzner sees it, is to bring a closer and closer *coordination* in the decisions of buyers and sellers through which both secure an advantage. It is "the heady scent of profits" that promotes alertness to hitherto undiscovered opportunities for reducing costs or developing new or better products.

Among other things, Kirzner makes a devastating attack on the criticism by socialists and others that competition is "wasteful." During the competitive process through which the market approaches equilibrium, he points out, there is imperfection of knowledge. But it is the market process itself that steadily moves toward eliminating previous ignorance.

From the point of view of an *omniscient* observer, the market would indeed display waste and misallocation at every stage. We in the 1970's, for example, can look back with amused condescension on the 1920's, when a thousand inventions and discoveries known today had not been made. We can see that any number of resources were not then being put to the best uses now known for them. But it was the competitive process that led to these discoveries. Even the best economists (not to speak of engineers or other technicians) of the 1920's did not then recognize these "wastes" and "inefficiency." Surely the efficiency of the competitive process is entitled to be judged, as Kirzner puts it, "not on the degree of conformity to the ideal allocation as seen from the perspective of omniscience, but on the degree to which currently known information is being optimally deployed."

In a similar way, critics often declare that it is obviously wasteful for someone to put up a new competing factory to make widgets when the first could produce all that are needed. But we cannot know until after the competing production starts which of the two factories, the old or the new, is truly "wasteful."

I have a few minor criticisms.

Professor Kirzner believes that the function of the "entrepreneur" can be completely separated from the function of the "capitalist." The "pure entrepreneur," he tells us (p. 40), can be "a decision-maker who starts out *without any means whatsoever*" (his italics). And again (p. 99), "purely entrepreneurial activity involves no element of resource ownership."

This is questionable. The entrepreneur-producer is by definition a man who takes risks, and with his own capital. If he is tak-

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ing risks simply with other people's capital he is merely a hired manager. True, he may borrow his capital from others; but if his project fails he must pay back, and he must have previous capital of his own to do that. The entrepreneur, in short, must be a capitalist plus. He is a capitalist willing to take unusual risks. Kirzner seems to me sometimes to reserve the term "entrepreneur" merely for the *successful* entrepreneur.

Again, Kirzner identifies the distinguishing feature of the entrepreneur as *alertness* (which he frequently italicizes). He is the one who *perceives* an opportunity. (Kirzner also usually italicizes "perceives.")

But two qualifications should be made. It is not enough that the entreprenuer be "alert" and that he "perceive" an opportunity; he must *act* on his alertness and perception. No doubt Kirzner means to imply this, but does not always make it sufficiently explicit. By omitting this link he tends to overstress the entrepreneur's alertness and perception while under-emphasizing his courage in taking risks.

This brings us to the second qualification. It is not always true that the entrepreneur *perceives* an opportunity. He *thinks* he perceives it. He perceives an *apparent* opportunity. In fact, *he is betting on an assumed future condition.* What he acts on may not be a perception but a *guess.* As Kirzner himself concedes at one place (p. 86), the entrepreneur's action "must to some extent constitute a gamble."

The point is important, particularly in view of Kirzner's criticism of Frank H. Knight's emphasis on uncertainty and his view of pure profit as a residual. Kirzner replies that "every entrepreneurial decision taken envisages *only* profits. . . . Treating profits as a residual fails to disclose that from the point of view of the prospective entrepreneur the profit opportunity is, with all its uncertainty, *there.*"

But this is precisely the question. *Is* it there? Every entrepreneur is pitting his own guess or "perception" against the composite guess or perception of all the rest. As Knight saw, they cannot all be right.

Yet Kirzner seems to me to be justified in his criticism of Knight, though for a different reason than he himself explicitly gives. Net pure profit, as Knight pointed out, may come to only half the entrepreneurs: those who follow the pioneers too late may suffer comparative losses. But pure profits are, after all, essentially a by-product of increased efficiency – in reducing the cost of

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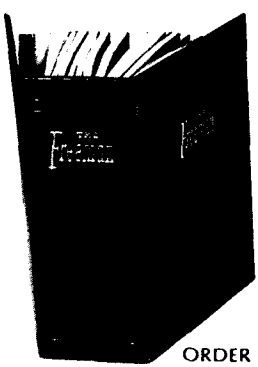
a product, improving its quality, or inventing or exploiting a completely new product. It is this increased efficiency or productivity that individual entrepreneurs strive for in order to increase their profits. The successful pioneers do reap increased profits; their followers and imitators may not. Yet, regardless of what it finally does or does not do to increase overall profits, the whole process immensely benefits all of us as consumers, as the history of the last two centuries so dramatically demonstrates. Profit-seeking may not always lead to profits, but it does lead to progress.

Some of my criticisms may apply more to oversights in Dr. Kirzner's exposition than to defects in his theories. In making them I hope I do not draw attention from the great positive contribution he has made in explaining point by point the shortcomings of both the "orthodox" Anglo-American and Schumpeterian theories of price, competition and entrepreneurship as compared with the "Austrian" or "Misesian." Kirzner has succeeded in pushing the implications of the latter analysis to new insights.

It is only on the last two pages of his book that he offers any "normative" advice on what economic policy should be, but his brief and quiet warning is a very necessary one at this time: "A social policy which arbitrarily confiscates from entrepreneurs the profitably secure positions their entrepreneurial alertness has achieved cannot fail to discourage such alertness in the future."



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Prepared by BETTINA BIEN GREAVES of the Foundation staff

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